

Message Text

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UNCLAS SECTION 01 OF 03 LONDON 20293

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: HIGHLIGHTS OF THE CHANCELLOR'S MINIBUDGET
PRESENTATION TO PARLIAMENT

SUMMARY: THE CHANCELLOR OF THE EXCHEQUER REVEALED DETAILS
OF THE LONG-AWAITED ECONOMIC PACKAGE DURING A RAUCOUS
SESSION OF THE COMMONS. THE PACKAGE IS DESIGNED TO REDUCE
PUBLIC SECTOR BORROWING OVER THE NEXT 22 FISCAL YEARS BY
MEANS OF SPENDING CUTS, EXCISE TAX INCREASES, AND THE SALE
OF SOME HMG OWNED SHARES OF BRITISH PETROLEUM. AS WITH
THE EARLIER ROUND OF SPENDING CUTS IN JULY, PUBLIC SECTOR
EMPLOYMENT EMERGES VIRTUALLY UNSCATHED WHILE DEFENSE AND
THE CONSTRUCTION INDUSTRY ARE HARDEST HIT. MARKET REAC-
TION HAS BEEN UNFAVORABLE WITH STERLING FALLING NEAR-
LY 2 CENTS AFTER HEALEY'S STATEMENT. END SUMMARY.

2. THE CHANCELLOR OF THE EXCHEQUER SET THE STAGE FOR
HIS DETAILED PACKAGE BY ESTABLISHING NEW TARGETS FOR THE
PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) FOR THE TWO
COMING FISCAL YEARS (FY77/78, 78/79). THESE TARGETS 8.7
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BILLION AND 8.6 BILLION POUNDS RESPECTIVELY REPRESENT RE-

DUCTIONS OF 2 AND 3 BILLION POUNDS FROM WHAT HAD BEEN FORECAST ON THE BASIS OF UNCHANGED POLICIES. MR. HEALEY SAID THAT THE PSBR TARGETS WOULD BE ACHIEVED BY SPENDING CUTS OF 1.016 BILLION POUNDS IN FY77 AND 1.513 BILLION IN FY78 PLUS THE IMMEDIATE SALE OF BP SHARES WORTH ABOUT 500 MILLION POUNDS AND INCREASES IN EXCISE TAXES.

2. THE EMPHASIS WAS PLACED ON PUBLIC SPENDING CUTS RATHER THAN ON TAX INCREASES BECAUSE, IN THE CHANCELLOR'S WORDS "IT WOULD NOT BE RIGHT TO BURDEN (PEOPLE AT WORK) WITH THE LION'S SHARE OF THE FISCAL ADJUSTMENT; AND INADEQUATE FINANCIAL INCENTIVES TO WORK AND INVEST COULD PUT OUR ECONOMIC RECOVERY AT RISK."

3. THE SHAPE OF THE CUTS -- THE 1.016 BILLION POUNDS IN CUTS PROPOSED BY THE CHANCELLOR FOR FY77, WHEN ADDED TO THE 0.952 BILLION ANNOUNCED LAST JULY, BRING TOTAL REDUCTIONS IN FY77 SINCE LAST FEBRUARY TO 1.968 BILLION POUNDS. THE CUTS ARE HEAVILY WEIGHTED TOWARD REDUCTIONS IN SUBSIDIES, REDUCED SPENDING ON CAPITAL CONSTRUCTION, PLUS THE RITUAL CUT IN DEFENSE SPENDING AND A RELUCTANT CUT IN FOREIGN AID.

4. THE ACCELERATED PHASING OUT OF FOOD SUBSIDIES, THE ELIMINATION OF THE SUBSIDY TO EMPLOYERS IN REGIONS DESIGNATED AS DEVELOPMENT AREAS, AND REDUCED GOVERNMENT PAYMENTS FOR EXPORT CREDIT GUARANTEES TOTAL 410 MILLION POUNDS. LOWER OUTLAYS ON ROAD CONSTRUCTION, PUBLIC WORKS, AND SCHOOL BUILDING CONTRIBUTE A FURTHER 222 MILLION POUNDS WHILE DEFENSE AND FOREIGN AID ADD ANOTHER 150 MILLION POUNDS. THE REMAINING AREA OF SIGNIFICANT CUTS (110 MILLION POUNDS) IS IN THE FINANCING OF NATIONALIZED INDUSTRIES. (DETAILS OF THE CUTS ARE CONTAINED IN THE ATTACHED TABLE).

5. ALTHOUGH THE SPENDING REDUCTIONS COMPRISE THE LARGEST PART OF THE PACKAGE THE CHANCELLOR ALSO ANNOUNCED 10 PERCENT INCREASES IN EXCISE TAXES ON TOBACCO AND ALCOHOL PLUS AN UNDETERMINED INCREASE IN THE PRICE OF NATURAL GAS. THE EXCISE TAX INCREASE WILL BRING IN REVENUES WORTH 280 MILLION POUNDS.

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LION POUNDS IN THE COMING FISCAL YEAR. IT WILL BE USED TO FINANCE SEVERAL JOB CREATION SCHEMES.

6. THE CHANCELLOR STATED THAT ADDITIONAL RESOURCES WOULD BE MADE AVAILABLE TO:

- THE NATIONAL ENTERPRISE BOARD
- THE SCOTTISH AND WELSH DEVELOPMENT AGENCIES
- A SELECTIVE INVESTMENT SCHEME (100 MILLION POUNDS)

SPREAD OVER SEVERAL YEARS FOR MAJOR PROJECTS DE -
SIGNED TO IMPROVE THE CAPACITY AND PERFORMANCE OF
MANUFACTURING INDUSTRY)
SECTORAL SCHEMES UNDER THE INDUSTRIAL STRAT-
EGY EXERCISE (80 MILLION POUNDS EACH IN FY77 & FY78)

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-MEASURES TO REDUCE UNEMPLOYMENT -- 120 MILLION
POUNDS IN FY77. (THIS SUM IS DESIGNED TO OFFSET THE
NEGATIVE IMPACT OF THE PACKAGE ON UNEMPLOY-
MENT IN 1977)

7. MONETARY ASPECTS: IN CONJUNCTION WITH HMG'S LETTER
OF INTENT TO THE IMF, THE CHANCELLOR ANNOUNCED THAT MONET-
ARY TARGETS WOULD BE ANNOUNCED IN TERMS OF DOMESTIC CREDIT
EXPANSION (DCE) (MONEY SUPPLY ADJUSTED TO EXCLUDE MOST
FOREIGN TRANSACTIONS). THE DCE TARGET FOR THE YEAR ENDING
4/20/77 IS AN INCREASE OF 9.0 BILLION POUNDS DROPPING TO
7.7 BILLION BY 4/78 AND 6.0 BILLION BY 4/79. MR. HEALEY

SAID THAT M3 IS LIKELY TO HAVE GROWN BY 9 TO 13 PERCENT IN THE YEAR ENDING 4/20/77. GIVEN THE SMALLER PUBLIC SECTOR DEMAND ON THE POOL OF SAVINGS, CROWDING OUT OF INDUSTRIAL BORROWERS SHOULD BE LESS OF A PROBLEM. THE CHANCELLOR SAID HE EXPECTED INTEREST RATES TO DECLINE, SLOWLY AT FIRST BUT THEN MORE RAPIDLY AS INFLATION EASED AND THE CURRENT ACCOUNT IMPROVED.

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8. THE IMF: AS EXPECTED, THE CHANCELLOR ANNOUNCED AGREEMENT WITH THE IMF AND STATED THE FUND WOULD PROVIDE 1.15 BILLION DOLLARS TO HMG IMMEDIATELY AND FURTHER 1.0 BILLION DURING 1977. HE SAID THAT THE G-10 COUNTRIES STOOD READY TO PROVIDE THE IMF WITH USABLE CURRENCIES SHOULD ITS RESOURCES PROVE INSUFFICIENT. THE OPERATION SHOULD BE COMPLETE SHORTLY AFTER NEW YEAR'S. THE CHANCELLOR ALSO ANNOUNCED SWAP OF 500 MILLION DOLLARS OFFERED BY THE US TREASURY AND THE FEDERAL RESERVE AND A STANDBY CREDIT OF 350 MILLION BY THE BUNDESBANK. THESE FUNDS ARE BEING MADE AVAILABLE TO STRENGTHEN RESERVES DURING THE PERIOD AHEAD AND IN ANTICIPATION OF FURTHER DRAWINGS FROM THE IMF LATER IN THE YEAR.

9. STERLING BALANCES - MR. HEALEY EXPRESSED CONFIDENCE ON REACHING A SATISFACTORY AGREEMENT ON STERLING BALANCES. THIS WAS BASED ON DISCUSSIONS AMONG CENTRAL BANK GOVERNORS IN BASEL DECEMBER 11 AND 12. HE ALSO SAID THE MATTER WAS UNDER DISCUSSION WITH THE TREASURY AND THE FEDERAL RESERVE IN WASHINGTON. "THESE TALKS HAVE REVEALED A GENERAL DESIRE ON THE PART OF THOSE CONCERNED TO ACHIEVE A SATISFACTORY ARRANGEMENT FOR THE STERLING BALANCES, AND I BELIEVE IT WILL BE NECESSARY TO REACH AN AGREEMENT BEFORE LONG."

10. ECONOMIC PROSPECTS: THE CHANCELLOR SPOKE OF A RISE OF 2 PERCENT IN GDP IN 1977, HIGHER UNEMPLOYMENT, SOME IMPROVEMENT IN THE CURRENT ACCOUNT DEFICIT, AND A DECLINE IN THE RATE OF INFLATION BEGINNING NEXT SUMMER. (DETAILS IN SEPTTEL).

11. THE FOLLOWING TABLE OUTLINES THE PLANNED PUBLIC EXPENDITURE SAVINGS:

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PUBLIC EXPENDITURE SAVINGS
POUNDS MILLIONS AT 1976 SURVEY PRICES

PROGRAMME	EXPENDITURE	1977-78	1978-79
1 DEFENCE BUDGET	100	200	
2 OVERSEAS AID	50	50	
3 FOOD SUBSIDIES	160	57	
4 REGIONAL EMPLOYMENT PREMIUM		150	170
REFINANCING OF FIXED RATE			
CREDITS	100	200	
CAPITAL SPENDING AT CFES(1)			
FOR INDUSTRIAL TRAINING	10	10	
5 NATIONALISED INDUSTRIES(2)	110	L30	
6 ROAD CONSTRUCTION	75	50	
7 HOUSING	-20	300	
8 REGIONAL WATER AUTHORITIES'			
ETC CONSTRUCTION	75	130	
LOCAL ENVIRONMENTAL SERVICES:			
CONSTRUCTION AND OTHER			

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	CAPITAL	50	50
	COMMUNITY OWNERSHIP OF DE-		
	VELOPMENT LAND	35	35
9	COURTS -- PURCHASE OF SITES	2	-
10	EDUCATION -- CONSTRUCTION	22	11
	OTHER EDUCATION EXPENDITURE,		
	INC SCHOOL MEALS	20	30
11	HEALTH AND PERSONAL SOCIAL		
	SERVICES -- CONSTRUCTION	10	20
	OTHER NHS EXPENDITURE	5	5
15	NORTHERN IRELAND	5	L0
	VARIOUS PROPERTY SERVICES AGENCY	27	45
	VARIOUS EXPENDITURE ON THE CIVIL SERVICE	30	10
	TOTAL	1016	1513

(1) COLLEGES OF FURTHER EDUCATION
(2) SAVINGS IN REQUIREMENTS FOR GOVERNMENT FINANCE.
15 DECEMBER 1976

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